

HARLAN COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2016

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HARLAN COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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Board of Education

(Before September 2015 Election)

Kathy Mahlberg	President	2015
Lonnie Muxfeldt	Vice President	2017
Joni Larsen	Board Member	2015
Bruce Goesser	Board Member	2015
Al Hazelton	Board Member	2017
Angie Monson	Board Member	2017
Amy Rueschenberg	Board Member	2017

(After September 2015 Election)

Kathy Mahlberg	President	2019
Lonnie Muxfeldt	Vice President	2017
Al Hazelton	Board Member	2017
Angie Monson	Board Member	2017
Amy Rueschenberg	Board Member	2017
Joni Larsen	Board Member	2019
Monte Schechinger	Board Member	2019

School Officials

Justin Wagner	Superintendent	2016
Kelli Klaassen	Director of Personnel/Board Secretary	2016
John Helling	District Treasurer	Indefinite
Brian Gubbels	Director of Finance	Indefinite
Richard Schenck	Attorney	Indefinite

HARLAN COMMUNITY SCHOOL DISTRICT



Diane McGrain, CPA
Jim Menard, CPA
Kelsey Peterson, CPA

November 22, 2016

INDEPENDENT AUDITORS' REPORT

The Board of Education
Harlan Community School District
Harlan, IA 51537

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Harlan Community School District, Harlan Iowa, as of and for the year ended June 30, 2016, and the related Notes to the Financial Statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Continued...

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November 22, 2016
Harlan Community School District
Independent Auditors' Report

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Harlan Community School District as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of District Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 8 through 15 and 47 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harlan Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2016 on our consideration of Harlan Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harlan Community School District's internal control over financial reporting and compliance.

Schaefer & Associates, PC

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Harlan Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

- General Fund revenues increased \$194,156 from \$15,479,705 in fiscal 2015 to \$15,673,861 in fiscal 2016, while General Fund expenditures increased \$200,715 from \$16,709,931 in fiscal 2015 to \$16,910,646 in fiscal 2016. The net increase in revenues and increase in expenditures resulted in a decrease in the District's General Fund balance from \$2,926,555 in fiscal 2015 to \$1,694,614 in fiscal 2016 which is a 42.1 percent decrease from the prior year.
- The increase in General Fund revenues was attributable to increases in property tax revenues, state aid revenue, and open enrollment revenue. The increase in expenditures was due primarily to wages and employee benefits.
- The District's General Fund financial transactions resulted in a decrease to the District's solvency ratio as it was 16.3% for 2015 and 9.0% for 2016. The District's solvency level indicates the District is able to meet unforeseen financing requirements and presents a sound risk for the timely repayment of short-term obligations. Iowa Association of School Boards, and Iowa Association of School Business Officials recognize a solvency ratio between 5-15% as financially acceptable.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Harlan Community School District as a whole and present an overall view of the District's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Harlan Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Harlan Community School District acts solely as an agent or custodian for the benefit of those outside of the District.
- Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, the District's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.
- Supplementary Information provides detailed information about the non-major governmental funds.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

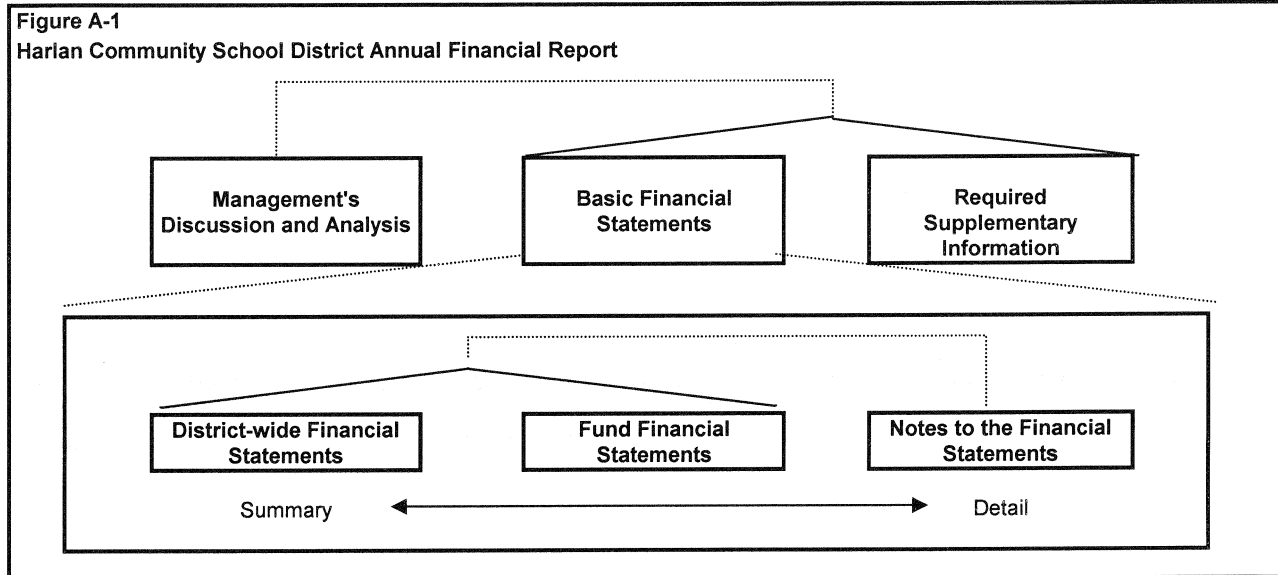


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> Statement of Net Position Statement of Activities 	<ul style="list-style-type: none"> Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> Statement of Net Position Statement of Revenues, Expenses and Changes in Net Position Statement of Cash Flows 	<ul style="list-style-type: none"> Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All additions and reductions during year, regardless of when cash is received or paid

REPORTING OF DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Statements

The Government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflow of resources, liabilities and deferred inflows of resources, with the difference reported as net position. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two Government-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are an indicator of whether financial position is improving or deteriorating, respectively. To assess the District's overall health, additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

1. *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance District's programs. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Fund.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances.

2. *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way the Government-wide statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a Statement of Revenues, Expenses, and Changes in Fund Net Position, and a Statement of Cash Flows.

3. *Fiduciary funds*: The District is the trustee or fiduciary for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position.

Reconciliations between the government-wide financial statements and the governmental fund financial statements follow the governmental fund financial statements.

Government-Wide Financial Analysis

Net position – Figure A-3 below provides a summary of the District's net position at June 30, 2015 compared to June 30, 2016.

Figure A-3
Condensed Statement of Net Position

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2015	2016	2015	2016	2015	2016	2015-2016
Current and other assets	\$ 14,282,661	\$ 12,493,795	\$ 353,512	\$ 332,322	\$ 14,636,173	\$ 12,826,117	-12.37%
Capital assets	19,314,814	18,962,361	78,889	63,043	19,393,703	19,025,404	-1.90%
Total assets	33,597,475	31,456,156	432,401	395,365	34,029,876	31,851,521	-6.40%
Deferred outflow of resources	2,335,671	3,178,382	41,476	71,254	2,377,147	3,249,636	36.70%
Long-term liabilities	18,452,009	18,093,241	167,113	207,646	18,619,122	18,300,887	-1.71%
Other liabilities	2,839,602	3,007,273	65,326	66,231	2,904,928	3,073,504	5.80%
Total liabilities	21,291,611	21,100,514	232,439	273,877	21,524,050	21,374,391	-0.70%
Deferred inflows of resources	8,386,954	7,952,524	63,732	48,324	8,450,686	8,000,848	-5.32%
Net position:							
Invested in capital assets	7,384,415	8,498,804	78,889	63,043	7,463,304	8,561,847	14.72%
Restricted	3,665,418	2,890,948	-	-	3,665,418	2,890,948	-21.13%
Unrestricted	(4,795,252)	(5,808,252)	98,817	81,375	(4,696,435)	(5,726,877)	-21.94%
Total net position	\$ 6,254,581	\$ 5,581,500	\$ 177,706	\$ 144,418	\$ 6,432,287	\$ 5,725,918	-10.98%

The District's total net position decreased by 10.98% or \$706,369 from the prior year. The largest portion of the District's net position is the invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net position decreased \$774,470 or 21.13% from the prior year. The decrease was primarily a result of the district paying off its QZAB loan in the physical plant and equipment fund.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased \$1,030,442 or 21.94%. This reduction in unrestricted net position was primarily a result of the District's net pension liability recorded in the current year.

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* was implemented during fiscal year 2015. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

Changes in net position – Figure A-4 shows the changes in net position for the year ended June 30, 2015 compared to the year ended June 30, 2016.

Figure A-4
Changes in Net Position

	Governmental Activities		Business-type Activities		Total School District	
	June 30,		June 30,		June 30,	
	2015	2016	2015	2016	2015	2016
Revenues:						
Program revenues:						
Charges for services and sales	\$ 1,970,943	\$ 1,897,947	\$ 422,998	\$ 421,289	\$ 2,393,941	\$ 2,319,236
Operating grants, contributions and restricted interest	2,474,387	2,738,631	386,697	372,225	2,861,084	3,110,856
Capital grants, contributions, and restricted interest	677,574	4,236	-	-	677,574	4,236
General revenue:						
Property tax	5,419,449	5,505,370	-	-	5,419,449	5,505,370
Local option sales tax	1,348,141	1,331,529	-	-	1,348,141	1,331,529
Unrestricted state grants	7,145,633	7,052,991	-	-	7,145,633	7,052,991
Unrestricted investment earnings	15,975	13,256	778	261	16,753	13,517
Other	45,111	31,434	(19,992)	-	25,119	31,434
Total revenues	19,097,213	18,575,394	790,481	793,775	19,887,694	19,369,169
Program expenses:						
Governmental activities:						
Instruction	11,937,221	12,251,720	-	-	11,937,221	12,251,720
Support services	4,912,815	4,999,304	-	-	4,912,815	4,999,304
Non-instructional programs	-	-	842,682	827,063	842,682	827,063
Other expenses	2,267,408	1,997,451	-	-	2,267,408	1,997,451
Total expenses	19,117,444	19,248,475	842,682	827,063	19,960,126	20,075,538
Change in net position	\$ (20,231)	\$ (673,081)	\$ (52,201)	\$ (33,288)	\$ (72,432)	\$ (706,369)

In fiscal year 2016, property tax and unrestricted state grants account for 64.8 percent of total revenue. The District's expenses primarily relate to instruction and support services which account for 89.6 percent of the total expenses.

Governmental Activities

Revenues for governmental activities were \$19,097,213 for fiscal 2015 and \$18,575,394 for fiscal 2016. Expenses were \$19,117,444 for fiscal 2015 and \$19,248,475 for fiscal 2016. The District expenditures exceeded revenues resulting in a slight decrease in financial position.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs, and other expenses, for the year ended June 30, 2015 compared to the year ended June 30, 2016.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services		Net Cost of Services	
	June 30,		June 30,	
	2015	2016	2015	2016
Instruction	\$ 11,937,221	\$ 12,251,720	\$ 8,372,042	\$ 8,539,778
Support services	4,912,815	4,999,304	4,642,809	4,727,689
Other expenses	2,267,408	1,997,451	979,689	1,340,194
Totals	\$ 19,117,444	\$ 19,248,475	\$ 13,994,540	\$ 14,607,661

- The cost financed by users of the District's programs was \$1,970,943 for 2015 and \$1,897,947 for 2016.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$3,151,961 for 2015 and \$2,742,867 for 2016.
- The net cost of governmental activities was financed with the following:

	<u>30-Jun-15</u>	<u>30-Jun-16</u>
Property Taxes	\$ 5,419,449	\$ 5,505,370
Local Option Sales Tax	1,348,141	1,331,529
State Unrestricted	7,145,633	7,052,991
Interest Income	15,975	13,256
Other Revenue	45,111	31,434

Business-Type Activities

Revenues of the District's business-type activities were \$790,481 for 2015 and \$793,775 for 2016, and expenses were \$842,682 for 2015 and \$827,063 for 2016. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements, and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Harlan Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$6,265,738 for 2015 and \$4,307,324 for 2016. The primary reason for the decrease in combined fund balances in fiscal 2016 is due to the Physical Plant and Equipment Levy (PPEL) QZAB loan being paid off. The District has also budgeted a slight decrease in fund balance. The District experienced a slight decrease in enrollment during fiscal year 2016, and will have to rely on State Foundation Aid allowable growth increases, new revenue sources, or use fund balance to cover increases in costs.

Governmental Fund Highlights

- The District's decrease in General Fund financial position is the product of many factors. Although the District saw an increase in some revenue areas including property tax collections, expenditures increased at a slightly higher rate resulting in an overall decrease in financial position. The increased expenditures were mainly from increases in salaries and benefits.
- The General Fund balance decreased from \$2,926,555 to \$1,694,614 due in part to an overall increase in expenditures over revenues.
- The Capital Project Fund balance decreased from \$2,268,427 to \$1,480,814 due in large part to the Physical Plant and Equipment Levy (PPEL) QZAB loan being paid off. Due to GASB 54 Fund Balance Reporting Requirements, the Physical Plant and Equipment Levy (PPEL) Fund balance is now included in the Capital Project Fund balance.
- The Debt Service Fund increased \$4.

Proprietary Fund Highlights

The School Nutrition Fund net position decreased from \$177,706 at June 30, 2015 to \$144,418 at June 30, 2016, representing a decrease of approximately 18.7%.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, The Board of Education annually adopts a budget following required public notice and hearing for all funds, except for internal services, private-purpose trusts and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis. The District operated within its certified budget. A schedule showing the original and final budget amounts compared to the District's actual financial activity are included in the required supplementary information section of this report.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the District had invested approximately \$19.03 million, net of accumulated depreciation, in a broad range of capital assets including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year totaled \$949,793.

The original cost of the District's capital assets was \$30.69 million. Governmental funds account for \$30.40 million with the remainder of \$0.29 million in the Proprietary, School Nutrition Fund.

The significant capital assets activities include the bus purchases and lighting project in the current year.

Figure A-6							
Capital Assets, net of Depreciation							
Governmental Activities		Business-type Activities		Total School District			
June 30,		June 30,		June 30,			
2015	2016	2015	2016	2015	2016	2015	2016
Land	\$ 25,700	\$ 25,700	\$ -	\$ -	\$ 25,700	\$ 25,700	\$ 25,700
Improvements other than buildings	198,781	187,762	-	-	198,781	187,762	187,762
Buildings	18,560,072	18,252,332	-	-	18,560,072	18,252,332	18,252,332
Furniture and equipment	530,261	496,567	78,889	63,043	609,150	559,610	559,610
Totals	\$ 19,314,814	\$ 18,962,361	\$ 78,889	\$ 63,043	\$ 19,393,703	\$ 19,025,404	\$ 19,025,404

Long-Term Debt

At June 30, 2016 the District had \$11,039,821 general obligation and other long-term debt outstanding. This represents a decrease of approximately 14% from last year. The decrease is primarily attributable to the District making the annual payments on the outstanding debt. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

Figure A-7			
Outstanding Long-Term Obligations			
	Total School District		Total Change
	2015	2016	2015-2016
Revenue bond refunding bonds	\$ 7,705,000	\$ 6,590,000	-14.47%
General obligation refunding bonds	5,089,795	4,449,821	-12.57%
Totals	\$ 12,794,795	\$ 11,039,821	-13.72%

FACTORS THAT BEAR ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District administration is taking steps to balance the District's revenues and expenditures and keep the District in a healthy financial position.
- The District has seen a decrease in enrollment. The District's funding for fiscal year 2017 will be based on the decreased enrollment. It is paramount that the District makes its financial decisions based upon the reduced enrollment.
- The District is closely monitoring the uncertainty of state and local finances in light of the national and global financial situation. It is uncertain whether or not there will be additional reductions made to the fiscal year 2017 budget.
- The District's state wide penny sales tax receipts are sufficient enough to pay the current general obligation and revenue bonds. As a result the District will not assess any property tax levy for debt service repayment.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brian Gubbels, Director of Finance, Harlan Community School District, 2102 Durant Street, Harlan, Iowa 51537.

BASIC FINANCIAL STATEMENTS

HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities	Business Type Activities	Total
Assets			
Cash, cash equivalents and pooled investments	\$ 5,493,006	310,920	5,803,926
Receivables:			
Property tax:			
Delinquent	64,466	-	64,466
Succeeding year	5,620,898	-	5,620,898
Accounts	226,739	-	226,739
Accrued Interest	164	-	164
Due from other governments	999,678	-	999,678
Prepaid expenses	88,844	3,990	92,834
Inventories	-	17,412	17,412
Capital assets, net of accumulated depreciation	18,962,361	63,043	19,025,404
Total assets	31,456,156	395,365	31,851,521
Deferred Outflows of Resources			
Pension related deferred outflows	2,602,118	71,254	2,673,372
Advanced debt refunding deferred outflows	576,264	-	576,264
Total deferred outflows of resources	3,178,382	71,254	3,249,636
Liabilities			
Accounts payable	279,209	611	279,820
Salaries & benefits payable	1,670,642	51,091	1,721,733
Accrued interest payable	95,773	-	95,773
Unearned revenue	-	14,529	14,529
Long-term liabilities:			
Portion due within one year:			
Bonds payable	830,000	-	830,000
Other post employment benefits	45,985	-	45,985
Compensated absences	85,664	-	85,664
Portion due after one year:			
Bonds payable, net of unamortized premiums	10,209,821	-	10,209,821
Net pension liability	7,369,153	207,646	7,576,799
Other post employment benefits	514,267	-	514,267
Total liabilities	21,100,514	273,877	21,374,391
Deferred Inflows of Resources			
Unavailable property tax revenue	5,620,898	-	5,620,898
Unavailable income surtax revenue	615,722	-	615,722
Pension related deferred inflows	1,715,904	48,324	1,764,228
Total deferred inflows of resources	7,952,524	48,324	8,000,848
Net Position			
Net investment in capital assets	8,498,804	63,043	8,561,847
Restricted for:			
Categorical funding	288,565	-	288,565
Management levy purposes	969,867	-	969,867
Student activities	151,702	-	151,702
Capital projects	1,233,361	-	1,233,361
Physical plant and equipment levy	247,453	-	247,453
Unrestricted	(5,808,252)	81,375	(5,726,877)
Total net position	\$ 5,581,500	144,418	5,725,918

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business- Type Activities	Total
Governmental activities:							
Instruction:							
Regular instruction	\$ 7,995,532	1,020,291	1,609,577	-	(5,365,664)	-	(5,365,664)
Special instruction	2,517,716	164,214	266,194	-	(2,087,308)	-	(2,087,308)
Other instruction	1,738,472	622,401	29,265	-	(1,086,806)	-	(1,086,806)
	<u>12,251,720</u>	<u>1,806,906</u>	<u>1,905,036</u>	<u>-</u>	<u>(8,539,778)</u>	<u>-</u>	<u>(8,539,778)</u>
Support services:							
Student services	614,833	-	122,455	-	(492,378)	-	(492,378)
Instructional staff services	473,256	-	-	-	(473,256)	-	(473,256)
Administration services	1,777,303	-	-	-	(1,777,303)	-	(1,777,303)
Operation & maintenance of plant services	1,261,931	7,304	-	-	(1,254,627)	-	(1,254,627)
Transportation services	871,981	83,737	58,119	-	(730,125)	-	(730,125)
	<u>4,999,304</u>	<u>91,041</u>	<u>180,574</u>	<u>-</u>	<u>(4,727,689)</u>	<u>-</u>	<u>(4,727,689)</u>
Other expenditures:							
Facilities acquisition	94,108	-	-	4,236	(89,872)	-	(89,872)
Long-term debt interest	539,310	-	59,004	-	(480,306)	-	(480,306)
AEA flowthrough	594,017	-	594,017	-	-	-	-
Depreciation (unallocated)*	770,016	-	-	-	(770,016)	-	(770,016)
	<u>1,997,451</u>	<u>-</u>	<u>653,021</u>	<u>4,236</u>	<u>(1,340,194)</u>	<u>-</u>	<u>(1,340,194)</u>
Total governmental activities	19,248,475	1,897,947	2,738,631	4,236	(14,607,661)	-	(14,607,661)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	827,063	421,289	372,225	-	-	(33,549)	(33,549)
Total	<u>\$ 20,075,538</u>	<u>2,319,236</u>	<u>3,110,856</u>	<u>4,236</u>	<u>(14,607,661)</u>	<u>(33,549)</u>	<u>(14,641,210)</u>
General Revenues:							
Property and other tax levied for:							
General purposes					\$ 5,012,155	-	5,012,155
Capital outlay					493,215	-	493,215
Statewide sales, services and use tax					1,331,529	-	1,331,529
Unrestricted state grants					7,052,991	-	7,052,991
Unrestricted investment earnings					13,256	261	13,517
Other					31,434	-	31,434
Total general revenues					<u>13,934,580</u>	<u>261</u>	<u>13,934,841</u>
Change in net position					(673,081)	(33,288)	(706,369)
Net position beginning of year					6,254,581	177,706	6,432,287
Net position end of year					<u>\$ 5,581,500</u>	<u>144,418</u>	<u>5,725,918</u>

* This amount excludes the depreciation that is included in the direct expense of the various programs

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
YEAR ENDED JUNE 30, 2016**

	General	Capital Projects	Debt Service	Nonmajor Governmental	Total
Assets					
Cash, cash equivalents and pooled investments	\$ 3,029,821	1,372,233	10,327	1,080,625	5,493,006
Receivables:					
Property tax:					
Delinquent	54,860	5,508	-	4,098	64,466
Succeeding year	4,972,208	501,357	-	147,333	5,620,898
Accounts	192,372	-	-	34,367	226,739
Accrued interest	164	-	-	-	164
Due from other governments	890,514	109,164	-	-	999,678
Prepaid expenses	78,295	-	-	10,549	88,844
Total assets	<u>\$ 9,218,234</u>	<u>1,988,262</u>	<u>10,327</u>	<u>1,276,972</u>	<u>12,493,795</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Accounts payable	\$ 265,048	6,091	-	8,070	279,209
Salaries & benefits payable	1,670,642	-	-	-	1,670,642
Total liabilities	1,935,690	6,091	-	8,070	1,949,851
Deferred inflows of resources:					
Unavailable revenues:					
Succeeding year property tax revenue	4,972,208	501,357	-	147,333	5,620,898
Succeeding year income surtax revenue	615,722	-	-	-	615,722
Total deferred inflows of resources	5,587,930	501,357	-	147,333	6,236,620
Fund balances:					
Nonspendable - prepaids	78,295	-	-	10,549	88,844
Restricted for:					
Categorical funding	288,565	-	-	-	288,565
Donated purposes	37,729	-	-	-	37,729
Debt service	-	-	10,327	-	10,327
Capital projects	-	1,233,361	-	-	1,233,361
Physical plant and equipment	-	247,453	-	-	247,453
Management levy purposes	-	-	-	959,318	959,318
Student activities	-	-	-	151,702	151,702
Unassigned	1,290,025	-	-	-	1,290,025
Total fund balances	1,694,614	1,480,814	10,327	1,121,569	4,307,324
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 9,218,234</u>	<u>1,988,262</u>	<u>10,327</u>	<u>1,276,972</u>	<u>12,493,795</u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2016**

Total fund balances of governmental funds	\$ 4,307,324
<i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	18,962,361
Payments to escrow in excess of loan proceeds received to advance refund debt are being amortized as deferred outflow of resources and are not reported in the governmental funds.	576,264
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(95,773)
Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:	
Deferred outflows of resources	\$ 2,602,118
Deferred inflows of resources	<u>(1,715,904)</u>
	886,214
Long-term liabilities, including bonds and notes payable, compensated absences payable, other postemployment benefits payable and net pension liability are not due and payable in the current period and, therefore, are not reported as liabilities of the governmental funds.	<u>(19,054,890)</u>
Net position of governmental activities	\$ <u>5,581,500</u>

See notes to financial statements

HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	General	Capital Projects	Debt Service	Nonmajor Governmental	Total
Revenues:					
Local sources:					
Local Tax	\$ 5,306,269	493,215	-	345,011	6,144,495
Tuition	1,095,726	-	-	-	1,095,726
Other	609,721	4,236	59,004	647,993	1,320,954
State sources	8,207,584	1,340,566	-	6,664	9,554,814
Federal sources	454,561	-	-	-	454,561
Total revenues	15,673,861	1,838,017	59,004	999,668	18,570,550
Expenditures:					
Current:					
Instruction:					
Regular instruction	7,994,957	35,752	-	82,750	8,113,459
Special instruction	2,546,048	-	-	-	2,546,048
Other instruction	1,149,837	-	-	604,172	1,754,009
	11,690,842	35,752	-	686,922	12,413,516
Support services:					
Student services	621,220	-	-	-	621,220
Instructional staff services	476,701	3,764	-	-	480,465
Administration services	1,635,410	4,500	1,000	150,874	1,791,784
Operation and maintenance of plant services	1,167,388	4,071	-	75,896	1,247,355
Transportation services	725,068	175,918	-	24,840	925,826
	4,625,787	188,253	1,000	251,610	5,066,650
Other expenditures:					
Facilities acquisition	-	468,003	-	-	468,003
Long-term debt:					
Principal	-	-	1,745,000	-	1,745,000
Interest and fiscal charges	-	-	246,622	-	246,622
AEA flowthrough	594,017	-	-	-	594,017
	594,017	468,003	1,991,622	-	3,053,642
Total expenditures	16,910,646	692,008	1,992,622	938,532	20,533,808
Excess (deficiency) of revenues over (under) expenditures	(1,236,785)	1,146,009	(1,933,618)	61,136	(1,963,258)
Other financing sources (uses):					
Sale of general fixed assets	4,844	-	-	-	4,844
Operating transfers in	-	-	1,933,622	-	1,933,622
Operating transfers out	-	(1,933,622)	-	-	(1,933,622)
Total other financing sources(uses)	4,844	(1,933,622)	1,933,622	-	4,844
Net change in fund balances	(1,231,941)	(787,613)	4	61,136	(1,958,414)
Fund balances beginning of year	2,926,555	2,268,427	10,323	1,060,433	6,265,738
Fund balances end of year	\$ 1,694,614	1,480,814	10,327	1,121,569	4,307,324

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Net change in fund balances - total governmental funds **\$ (1,958,414)**

*Amounts reported for governmental activities in the
Statement of Activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays depreciation expense and adjustments for disposals in the year are as follows:

Expenditures for capital assets	\$ 581,494	
Depreciation expense	<u>(933,947)</u>	(352,453)

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position.	1,745,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	(292,688)
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The current year District employer share of IPERS contributions are reported as expenditures in the governmental funds, but are reported as deferred outflow of resources in the Statement of Net Position	933,487
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds		
Compensated absences	\$ (6,045)	
Pension expense	(693,564)	
Other post employment benefits	<u>(48,404)</u>	<u>(748,013)</u>

Change in net position of governmental activities	\$ <u>(673,081)</u>
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See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2016**

	School Nutrition
Assets	
Current assets:	
Cash, cash equivalents and pooled investments	\$ 310,920
Prepaid expenses	3,990
Inventories	<u>17,412</u>
Total current assets	332,322
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>63,043</u>
Total assets	395,365
Deferred Outflows of Resources	
Pension related deferred outflows	71,254
Liabilities	
Current liabilities:	
Accounts payable	611
Salaries and benefits and payable	51,091
Unearned revenue	<u>14,529</u>
Total current liabilities	66,231
Noncurrent liabilities:	
Net pension liability	<u>207,646</u>
Total liabilities	273,877
Deferred Inflows of Resources	
Pension related deferred inflows	48,324
Net Position	
Investment in capital assets	63,043
Unrestricted	<u>81,375</u>
Total net position	<u>\$ 144,418</u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2016**

	<u>School Nutrition</u>
Operating revenue:	
Local sources:	
Charges for service	\$ 421,289
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	276,751
Benefits	45,270
Purchased services	18,803
Supplies	470,393
Depreciation	<u>15,846</u>
Total operating expenses	<u>827,063</u>
Operating loss	(405,774)
Non-operating revenue:	
State sources	6,432
Federal sources	365,793
Interest on investments	<u>261</u>
Total non-operating revenue	<u>372,486</u>
Change in net position	(33,288)
Net position beginning of year	<u>177,706</u>
Net position end of year	<u>\$ 144,418</u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2016**

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 421,100
Cash payments to employees for services	(325,738)
Cash payments to suppliers for goods or services	<u>(435,357)</u>
Net cash used in operating activities	(339,995)
Cash flows from non-capital financing activities:	
State grants received	6,432
Federal grants received	<u>337,165</u>
Net cash provided by non-capital financing sources	343,597
Cash flows from investing activities:	
Interest on investments	<u>261</u>
Net increase in cash and cash equivalents	3,863
Cash and cash equivalents at beginning of year	<u>307,057</u>
Cash and cash equivalents at end of year	\$ <u><u>310,920</u></u>

**Reconciliation of operating loss to net cash used by
operating activities:**

Operating loss	\$ (405,774)
Commodities used	55,556
Depreciation	15,846
(Increase) decrease:	
Inventories	2,115
Prepaid expenses	(3,990)
Pension related deferred outflows	(29,778)
Increase (decrease) in:	
Accounts payable	158
Salaries and benefits payable	936
Unearned revenue	(189)
Net pension liability	40,533
Pension related deferred inflows	<u>(15,408)</u>
Net cash used in operating activities	\$ <u><u>(339,995)</u></u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2016 the District received \$55,556 of federal commodities

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2016**

	Private Purpose Trust	
	<u>Scholarship</u>	<u>Agency</u>
Assets		
Cash, cash equivalents and pooled investments	\$ 170,855	11,815
Total assets	<u>170,855</u>	<u>11,815</u>
Liabilities		
Due to other governments	<u>-</u>	11,815
Total liabilities	<u>-</u>	<u>11,815</u>
Net Position		
Reserved for scholarships	\$ <u>170,855</u>	<u>-</u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2016**

	Private Purpose Trust <u>Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 8,118
Interest income	<u>324</u>
Total additions	8,442
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	<u>15,502</u>
Change in net position	(7,060)
Net position beginning of year	<u>177,915</u>
Net position end of year	<u>\$ 170,855</u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 1 Summary of Significant Accounting Policies

The Harlan Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Harlan, Iowa and the predominate agricultural territory in Harrison and Shelby Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Harlan Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Harlan Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in jointly governed organizations that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Harrison and Shelby Counties Assessor's Conference Boards.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Position presents the District's nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 1 Summary of Significant Accounting Policies (continued)

B. Basis of Presentation – (continued)

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position that does not meet the definition of the preceding two categories. Unrestricted net position is often subject to constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the District's long term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and all other capital assets.

The District reports the following major proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 1 Summary of Significant Accounting Policies (continued)

B. Basis of Presentation - (continued)

The District also reports fiduciary funds which focus on net position and changes in net position. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 1 Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting - (continued)

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents— The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable – Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 1 Summary of Significant Accounting Policies (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity - (continued)

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2014 assessed property valuations; is for the tax accrual period July 1, 2015 through June 30, 2016 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2015.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	1,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Outflows of Resources - Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources related to pension consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period. Deferred outflows of resources related to advanced debt refunding consist of the unamortized balance not yet charged to interest expense.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 1 Summary of Significant Accounting Policies (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity - (continued)

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Unearned Revenue - Nutrition fund unearned revenue consists of student meal charges collected but not yet earned.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2016. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Position.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – Deferred inflows of resources represent an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivables that will not be recognized as revenue until the year for which it is levied, succeeding year income surtax that will not be recognized as revenue until available, and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 1 Summary of Significant Accounting Policies (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity - (continued)

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts not in spendable form, such as inventories and prepaid expenses.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resource are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

NOTE 2 Cash and Pooled Investments

The District's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance, or by the State Sinking Fund, in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2016, the District had investments in the Iowa Schools Joint Investment Trust District Government Obligations Portfolio which are valued at an amortized cost of \$932 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAAM by Standard & Poor's Financial Services.

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 3 Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ <u>1,933,622</u>

Transfers generally move revenues from the fund statutorily required to collect the resources, to the fund statutorily required to expend the resources.

NOTE 4 Capital Assets

Capital assets activity for the year ended June 30, 2016 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 25,700	-	-	25,700
Capital assets being depreciated:				
Buildings	25,395,764	367,719		25,763,483
Improvements other than buildings	680,639	-	-	680,639
Furniture and equipment	3,853,005	213,775	133,472	3,933,308
Total capital assets being depreciated	29,929,408	581,494	133,472	30,377,430
Less accumulated depreciation for:				
Buildings	6,835,692	675,459	-	7,511,151
Improvements other than buildings	481,858	11,019	-	492,877
Furniture and equipment	3,322,744	247,469	133,472	3,436,741
Total accumulated depreciation	10,640,294	933,947	133,472	11,440,769
Total capital assets being depreciated, net	19,289,114	(352,453)	-	18,936,661
Governmental activities capital assets, net	\$ <u>19,314,814</u>	(352,453)	-	18,962,361
Business-type activities				
Furniture and equipment	\$ 290,989	-	5,922	285,067
Less accumulated depreciation	212,100	15,846	5,922	222,024
Business-type activities capital assets, net	\$ <u>78,889</u>	(15,846)	-	63,043

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 4 Capital Assets (continued)

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 6,319
Other	4,396
Support services:	
Student services	538
Operation and maintenance of plant	21,001
Transportation	131,677
	<u>163,931</u>
Unallocated	<u>770,016</u>
 Total depreciation expense - governmental activities	 <u><u>\$ 933,947</u></u>
 Business-type activities:	
Food services	<u><u>\$ 15,846</u></u>

NOTE 5 Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2016 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation refunding bonds	5,010,000	-	630,000	4,380,000	645,000
Unamortized premium	79,795	-	9,974	69,821	-
Sales tax refunding bonds	6,705,000	-	115,000	6,590,000	185,000
Quality Zond Academy bonds	1,000,000	-	1,000,000	-	-
Compensated absences	79,619	85,664	79,619	85,664	85,664
Net pension liability	5,931,886	1,437,267	-	7,369,153	-
Net OPEB liability	511,848	89,924	41,520	560,252	45,985
	<u>19,318,148</u>	<u>1,612,855</u>	<u>1,876,113</u>	<u>19,054,890</u>	<u>961,649</u>
 Total	 <u><u>\$ 19,318,148</u></u>	 <u><u>1,612,855</u></u>	 <u><u>1,876,113</u></u>	 <u><u>19,054,890</u></u>	 <u><u>961,649</u></u>
 Business type activities					
Net pension liability	\$ 167,113	40,533	-	207,646	-
	<u><u>167,113</u></u>	<u><u>40,533</u></u>	<u><u>-</u></u>	<u><u>207,646</u></u>	<u><u>-</u></u>

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 5 Long-Term Liabilities (continued)

Bonds Payable

Details of the District's June 30, 2016 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of December 11, 2012			
	Interest Rates	Principal	Interest	Premium Amortization
2017	2.00%	\$ 645,000	69,832	9,974
2018	2.00%	660,000	56,932	9,974
2019	1.10%	675,000	43,732	9,974
2020	1.35%	685,000	36,308	9,974
2021	1.50%	695,000	27,061	9,974
2022-2023	1.60-1.70%	1,020,000	21,992	19,951
		<u>\$ 4,380,000</u>	<u>255,857</u>	<u>69,821</u>

Sales Tax Bond

Details of the District's June 30, 2016 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of February 5, 2015		
	Interest Rates	Principal	Interest
2017	2.73%	\$ 185,000	177,383
2018	2.73%	190,000	172,264
2019	2.73%	200,000	166,940
2020	2.73%	205,000	161,411
2021	2.73%	210,000	155,746
2022-2026	2.73%	2,225,000	659,497
2027-2030	2.73%	3,375,000	187,073
		<u>\$ 6,590,000</u>	<u>1,680,314</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$6,705,000 bonds issued February 5, 2015. The bonds were issued for the purpose of refunding the May 2009 bonds. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2030. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 100 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bond is \$8,270,314. For the current year, total principal and interest paid on the refunded bonds and total statewide sales, services and use tax revenue were \$279,170 and \$1,331,529, respectively. There were no payments made on the refunding bonds.

There are no reserve requirements on the new bonds.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 5 Long-Term Liabilities (continued)

Advanced Debt Refunding

On February 5, 2015, the District issued \$6,705,000 in revenue bonds with interest rates of 2.73% per annum. A total of \$7,240,430, which includes the refunding note proceeds was placed in escrow to decrease the \$6,330,000 revenue bond issued in May 2009. The old debt has a final call date of July 1, 2018. The escrow balance of \$6,885,969, and the refunded debt outstanding of \$6,330,000 at June 30, 2016 are not reflected in the District's financial statement.

For the year ended June 30, 2016, the District reported deferred outflows of \$576,264 related to the advanced debt refunding that will be recognized as interest expense as follows:

Year Ending June 30,		
2017	\$	288,132
2018		<u>288,132</u>
	\$	<u>576,264</u>

NOTE 6 Pension Plan

Plan Description - IPERS membership is mandatory for employees of the District, except for those covered by another retirement system. Employees of the District are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 6 Pension Plan (continued)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the District contributed 8.93% of covered payroll, for a total rate of 14.88%.

The District's contributions to IPERS for the year ended June 30, 2016 were \$957,700.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the District reported a liability of \$7,576,799 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the IPERS' relative to the contributions of all IPERS participating employers. At June 30, 2015, the District's proportion was 0.153362%, which was a decrease of 0.000424% from its proportion measured as of June 30, 2014.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 6 Pension Plan (continued)

For the year ended June 30, 2016, the District recognized pension expense of \$713,124. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 114,476	\$ -
Changes in assumptions	208,608	-
Net difference between projected and actual earnings on pension plan investments	1,133,639	1,764,228
Changes in proportion and differences between District contributions and proportionate share of contributions	258,949	-
District contributions subsequent to the measurement date	<u>957,700</u>	<u>-</u>
Total	\$ <u>2,673,372</u>	\$ <u>1,764,228</u>

\$957,700 reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2017	\$ (136,983)
2018	(136,983)
2019	(136,983)
2020	353,897
2021	<u>8,496</u>
Total	\$ <u>(48,556)</u>

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 6 Pension Plan (continued)

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 6 Pension Plan (continued)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 13,265,611	\$ 7,576,799	\$ 2,775,033

Pension Plan Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to IPERS - At June 30, 2016, the District reported payables to IPERS of \$123,796 for legally required District contributions and \$82,484 for legally required employee contributions withheld from employee wages which had not yet been remitted to IPERS.

NOTE 7 Termination Benefits

In November, 2015, the District approved a voluntary early retirement plan for employees. The plan was offered for one year. Eligible employees must have completed at least 10 years of full time service to the District, must have reached the age of fifty-five by June 30, 2015, and be first year eligible for IPERS benefits. The retirement benefit equaled a one-time payment of \$20,000 to a deferred plan on behalf of each electing employee. Three employees were granted the benefit. Early retirement expenditures for the year ended June 30, 2016 totaled \$60,000, with no liability outstanding.

NOTE 8 Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 9 Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. The District pays for all or a portion of active employees' coverage. Retired members can continue their coverage at their own expense and also receive an explicit subsidy of \$83 per month staying within plan coverage and \$168 per month if they elect to discontinue coverage within the district plan. For new retirees after June 30, 2016, the explicit subsidy increases to \$125 per month. There are 121 active and 25 retired members in the plan. Participants must be age 55 or older at retirement.

The medical and prescription drug coverage is provided through a fully-insured plan with Wellmark. The same premium is paid for retirees under age 65 for the medical and prescription drug benefit as active employees, which results in an implicit subsidy. The OPEB liability includes both the explicit and the implicit subsidies.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2016, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 143,617
Interest on net OPEB obligation	12,796
Adjustment to annual required contribution	<u>(66,489)</u>
Annual OPEB cost	89,924
Contributions made	<u>41,520</u>
Increase in net OPEB obligation	48,404
Net OPEB obligation, beginning of year	<u>511,848</u>
Net OPEB obligation, end of year	<u>\$ 560,252</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2014. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2016.

For the year ended June 30, 2016, the District made an explicit contribution of \$22,750 and an implicit contribution of \$18,770 to the medical plan. Plan members eligible for benefits contributed \$92,229, or 80.2% of the premium costs.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 9 Other Postemployment Benefits (OPEB) (continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2016 are summarized as follows:

Year Ended June 30,		Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
2014	\$	132,424	28.5%	\$	464,817
2015		96,108	18.8%		511,848
2016		89,924	16.1%		560,252

Funding Status and Funding Progress - As of July 1, 2014, the most recent actuarial valuation for the period July 1, 2015 through June 30, 2016, the actuarial accrued liability was \$505,256, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$505,256. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$8,820,222, and the ratio of the UAAL to covered payroll was 5.73%. As of June 30, 2016, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2014 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

The most recent aging curve study was presented by the Society of Actuaries in February 2006. This study provided the basis for the "aging cost assumption" used in the valuation.

Projected claim costs of the medical plan are \$583 per month for retirees. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 10 Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$594,017 for the year ended June 30, 2016 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

NOTE 11 Lease Agreements

The District has signed operating lease agreements for the rental of computer equipment. Rent expense for the year ended June 30, 2016 totaled \$315,544. Future required minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 170,017
2018	135,222
2019	<u>62,741</u>
	<u>\$ 367,980</u>

NOTE 12 Categorical Funding

The District ending balances for categorical funding by project as of the year ended June 30, 2016 are as follows:

<u>Project</u>	<u>Amount</u>
Limited English proficiency	\$ 32,009
Home school assistance	218,204
Gifted and talented	24,870
Teachers compensation	1,455
Teacher quality professional development	<u>12,027</u>
	<u>\$ 288,565</u>

REQUIRED SUPPLEMENTARY INFORMATION

**HARLAN COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN BALANCES – BUDGET AND ACTUAL –
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016**

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts	Budget to Actual Variance - Positive (Negative)
Revenues:					
Local sources	\$ 8,561,175	421,550	8,982,725	8,805,462	177,263
State sources	9,554,814	6,432	9,561,246	9,420,666	140,580
Federal sources	454,561	365,793	820,354	820,000	354
Total receipts	<u>18,570,550</u>	<u>793,775</u>	<u>19,364,325</u>	<u>19,046,128</u>	<u>318,197</u>
Expenditures:					
Instruction	12,413,516	-	12,413,516	12,464,931	51,415
Support services	5,066,650	-	5,066,650	5,128,287	61,637
Non-instructional programs	-	827,063	827,063	929,900	102,837
Other expenditures	<u>3,053,642</u>	<u>-</u>	<u>3,053,642</u>	<u>3,059,406</u>	<u>5,764</u>
Total disbursements	<u>20,533,808</u>	<u>827,063</u>	<u>21,360,871</u>	<u>21,582,524</u>	<u>221,653</u>
Excess (deficiency) of revenue over (under) expenditures	(1,963,258)	(33,288)	(1,996,546)	(2,536,396)	539,850
Other financing sources, net	<u>4,844</u>	<u>-</u>	<u>4,844</u>	<u>4,000</u>	<u>844</u>
Excess(deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,958,414)	(33,288)	(1,991,702)	(2,532,396)	540,694
Balances beginning of year	<u>6,265,738</u>	<u>177,706</u>	<u>6,443,444</u>	<u>6,081,028</u>	<u>362,416</u>
Balances end of year	<u>\$ 4,307,324</u>	<u>144,418</u>	<u>4,451,742</u>	<u>3,548,632</u>	<u>903,110</u>

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2016**

This budgetary comparison is presented as Required Supplementary Information in accordance with *Governmental Accounting Standards Board* Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2016, expenditures did not exceed the amounts budgeted and the District did not exceed its General Fund unspent authorized budget.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST TWO YEARS*
(IN THOUSANDS)
REQUIRED SUPPLEMENTARY INFORMATION**

	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.153362%	0.153786%
District's proportionate share of the net pension liability	\$ 7,577	6,099
District's covered-employee payroll	\$ 10,508	10,057
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.11%	60.64%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

See Accompanying Independent Auditors' Report

HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST TEN YEARS
(IN THOUSANDS)
REQUIRED SUPPLEMENTARY INFORMATION

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Statutorily required contribution	\$ 958	939	898	815	730	639	669	662	548	473
Contributions in relation to the statutorily required contribution	958	939	898	815	730	639	669	662	548	473
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
City's covered-employee payroll	\$ 10,508	10,508	10,057	9,405	9,060	9,198	10,070	10,424	9,055	8,227
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.67%	8.06%	6.95%	6.65%	6.35%	6.05%	5.75%

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2015**

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008, transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN (In Thousands)
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016**

Year Ended 30-Jun	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	Jul 1, 2008	- \$	903 \$	903	0.0%	\$ 9,736	9.23%
2011	Jul 1, 2008	-	675	675	0.0%	8,890	7.59%
2012	Jul 1, 2011	-	890	890	0.0%	8,736	10.19%
2013	Jul 1, 2011	-	854	854	0.0%	9,185	9.30%
2014	Jul 1, 2011	-	809	809	0.0%	9,812	8.18%
2015	Jul 1, 2014	-	570	570	0.0%	8,029	7.10%
2016	Jul 1, 2014	-	505	505	0.0%	8,820	5.73%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

See Accompanying Independent Auditors' Report

SUPPLEMENTARY INFORMATION

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016**

	Special Revenue		
	Management Levy	Student Activity	Total
Assets			
Assets:			
Cash, cash equivalents and pooled investments	\$ 955,220	125,405	1,080,625
Receivables:			
Property tax:			
Delinquent	4,098	-	4,098
Succeeding year	147,333	-	147,333
Accounts	-	34,367	34,367
Prepaid expenses	10,549	-	10,549
Total assets	\$ <u>1,117,200</u>	<u>159,772</u>	<u>1,276,972</u>
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts payable	\$ -	8,070	8,070
Total liabilities	-	8,070	8,070
Deferred inflows of resources:			
Unavailable succeeding year property tax revenue	147,333	-	147,333
Fund balances:			
Nonspendable:			
Prepays	10,549	-	10,549
Restricted for:			
Management levy purposes	959,318	-	959,318
Student activities	-	151,702	151,702
Total fund balances	<u>969,867</u>	<u>151,702</u>	<u>1,121,569</u>
Total liabilities, deferred inflows of resources and fund balances	\$ <u>1,117,200</u>	<u>159,772</u>	<u>1,276,972</u>

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016**

	Special Revenue		
	Management Levy	Student Activity	Total
Revenues:			
Local sources:			
Local Tax	\$ 345,011	-	345,011
Other	25,588	622,405	647,993
State sources	6,664	-	6,664
Total revenues	377,263	622,405	999,668
Expenditures:			
Current:			
Instruction:			
Regular instruction	82,750	-	82,750
Other instruction	-	604,172	604,172
	82,750	604,172	686,922
Support services:			
Administration services	150,874	-	150,874
Operation and maintenance of plant services	75,896	-	75,896
Transportation services	24,840	-	24,840
	251,610	-	251,610
Total expenditures	334,360	604,172	938,532
Net change in fund balances	42,903	18,233	61,136
Fund balances beginning of year	926,964	133,469	1,060,433
Fund balances end of year	\$ 969,867	151,702	1,121,569

See Accompanying Independent Auditors' Report

HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND - STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2016

	Balance Beginning of Year	Revenues	Expend- itures	Balance End of Year
Drama	\$ 2,503	3,955	2,949	3,509
HS vocal music	-	5,758	5,758	-
MS vocal music	583	-	102	481
Show choir	-	8,858	8,298	560
HS instr music	2,143	2,489	2,175	2,457
HS jazz	-	1,891	1,891	-
MS flag corp	49	-	-	49
HS flag corp	2,964	828	2,599	1,193
Athletics	2,232	216,158	216,263	2,127
Splish splash auto detailing	1,433	1,502	1,668	1,267
FB holocaust memorial rock project	872	-	-	872
Cheerleaders	558	3,778	2,977	1,359
FFA	9,888	113,956	102,616	21,228
Harpoon	19,792	2,762	7,036	15,518
Entrepreneurial vending	1,756	-	-	1,756
National honor society	488	-	488	-
BPA	-	24,127	20,187	3,940
Science club	5	-	-	5
Foreign language club	2,883	2,931	614	5,200
Student council	2,468	20,371	18,657	4,182
Pom pom	-	9,769	9,723	46
Destination imagination	2,422	929	-	3,351
Key Club	4,337	1,808	2,181	3,964
For the birds	608	513	1,017	104
FCCLA Club	2,894	2,529	2,748	2,675
FEA	133	-	-	133
Friends of Rachele	1,715	-	-	1,715
Fundraising	-	35,972	34,242	1,730
Prom	1,388	15,562	16,950	-
HS miscellaneous	104	-	-	104
Hosa fund	-	21,271	21,271	-
Cyclone corner store	8,259	56,690	43,601	21,348
Concessions	2,318	22,469	23,787	1,000
Vending	4,381	5,496	2,817	7,060
MS cheerleading	4,933	-	225	4,708
MS vending	9,309	5	8,675	639
MS student council	12,199	20,680	26,024	6,855
MS yearbook	5,888	3,210	2,967	6,131
MS drama	605	-	-	605
MS building improvements	98	-	-	98
MS builders club	281	-	-	281
MS student fund	189	7,709	7,800	98
New Park student fund	12,385	8,429	5,866	14,948
West Ridge student fund	7,804	-	-	7,804
West Ridge student store	602	-	-	602
Total	\$ 133,469	622,405	604,172	151,702

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
CAPITAL PROJECT ACCOUNTS
YEAR ENDED JUNE 30, 2016**

	Capital Projects		Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
Assets			
Assets:			
Cash, cash equivalents and pooled investments	\$ 1,124,197	248,036	1,372,233
Receivables:			
Property tax:			
Delinquent	-	5,508	5,508
Succeeding year	-	501,357	501,357
Due from other governments	109,164	-	109,164
Total assets	\$ 1,233,361	754,901	1,988,262
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts payable	\$ -	6,091	6,091
Total liabilities	-	6,091	6,091
Deferred inflows of resources:			
Unavailable succeeding year property tax revenue	-	501,357	501,357
Fund balances:			
Restricted for:			
School infrastructure	1,233,361	-	1,233,361
Physical plant and equipment	-	247,453	247,453
Total fund balances	1,233,361	247,453	1,480,814
Total liabilities, deferred inflows of resources and fund balances	\$ 1,233,361	754,901	1,988,262

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES – CAPITAL PROJECT ACCOUNTS
YEAR ENDED JUNE 30, 2016**

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local Tax	\$ -	493,215	493,215
Other	1,201	3,035	4,236
State sources	1,331,529	9,037	1,340,566
Total revenues	1,332,730	505,287	1,838,017
Expenditures:			
Current:			
Instruction:			
Regular instruction	-	35,752	35,752
Support services:			
Instructional staff services	-	3,764	3,764
Administration services	4,500	-	4,500
Operation and maintenance of plant services	-	4,071	4,071
Transportation services	42,959	132,959	175,918
	47,459	140,794	188,253
Other expenditures:			
Facilities acquisition	-	468,003	468,003
Total expenditures	47,459	644,549	692,008
Excess (deficiency) of revenues over (under) expenditures	1,285,271	(139,262)	1,146,009
Other financing (uses):			
Operating transfers out	(992,622)	(941,000)	(1,933,622)
Total other financing (uses)	(992,622)	(941,000)	(1,933,622)
Net change in fund balances	292,649	(1,080,262)	(787,613)
Fund balances beginning of year	940,712	1,327,715	2,268,427
Fund balances end of year	\$ 1,233,361	247,453	1,480,814

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
YEAR ENDED JUNE 30, 2016**

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ 9,358	3,121	664	11,815
Total assets	<u>\$ 9,358</u>	<u>3,121</u>	<u>664</u>	<u>11,815</u>
Liabilities				
Due to other governments	\$ 9,358	3,121	664	11,815
Total liabilities	<u>\$ 9,358</u>	<u>3,121</u>	<u>664</u>	<u>11,815</u>

See Accompanying Independent Auditors' Report

HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURE BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST TEN YEARS

	Modified Accrual Basis									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Revenues:										
Local sources:										
Local Tax	\$ 6,144,495	6,125,125	6,025,640	7,218,238	7,636,847	7,512,198	6,342,488	5,837,085	5,715,871	4,475,863
Tuition	1,095,726	1,112,376	1,071,903	993,423	1,077,900	1,044,614	990,705	921,478	875,705	1,163,555
Other	1,320,954	1,532,938	1,755,302	858,994	965,743	853,217	948,330	1,089,363	1,101,418	2,003,624
State sources	9,554,814	9,818,541	9,450,324	7,789,617	8,330,873	7,794,654	6,996,289	8,203,024	7,994,997	7,621,498
Federal sources	454,561	475,526	521,920	382,000	545,439	736,524	1,290,479	434,184	410,350	464,915
Total	\$ 18,570,550	19,064,506	18,825,089	17,242,272	18,556,802	17,941,207	16,568,291	16,485,134	16,098,341	15,729,455
Expenditures:										
Instruction:										
Regular instruction	\$ 8,113,459	8,102,246	7,781,024	7,119,814	6,458,017	6,561,370	7,223,885	6,921,935	6,640,200	6,094,933
Special instruction	2,546,048	2,336,968	2,115,622	1,973,450	2,302,080	2,025,680	1,816,504	2,073,664	1,955,078	2,305,201
Other instruction	1,754,009	1,825,380	1,770,513	1,814,507	1,731,674	1,701,138	1,919,532	1,642,187	1,562,230	1,429,800
Support services:										
Student services	621,220	600,823	494,895	424,509	432,328	375,374	654,989	652,071	544,349	432,183
Instructional staff services	480,465	481,445	491,024	436,804	666,983	371,410	372,660	393,717	401,968	420,718
Administration services	1,791,784	1,725,334	1,642,779	1,610,252	1,426,148	1,495,949	1,551,890	1,423,483	1,344,138	1,253,482
Operation and maintenance of plant services	1,247,355	1,253,922	1,273,294	1,222,965	1,313,770	1,196,590	1,115,072	1,131,622	1,139,891	1,080,158
Transportation services	925,826	881,947	956,706	778,561	847,034	726,086	799,634	803,370	697,317	800,819
Other support services	-	-	-	-	-	3,997	-	-	969	-
Other expenditures:										
Facilities acquisition	468,003	1,598,039	1,041,240	206,167	835,401	1,584,854	4,952,994	7,058,375	662,735	269,496
Long-term debt:										
Principal	1,745,000	5,385,000	490,000	470,000	450,000	435,000	420,000	545,000	714,900	699,909
Interest and fiscal charges	246,622	721,892	648,996	685,065	601,190	613,336	511,790	413,796	47,680	43,324
AEA flowthrough	594,017	596,354	577,516	547,192	547,409	613,093	615,639	560,644	519,167	498,288
Total	\$ 20,533,808	25,509,350	19,283,609	17,289,286	17,612,034	17,703,877	21,954,589	23,619,864	16,230,622	15,328,311

See Accompanying Independent Auditors' Report

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**



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November 22, 2016

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit Performed
in Accordance with Government Auditing Standards**

The Board of Education of
Harlan Community School District
Harlan, IA 51537

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund balance information of the Harlan Community School District as of and for the year ended June 30, 2016, and the related Notes to the Financial Statements, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 22, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Harlan Community School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harlan Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Harlan Community School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harlan Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Harlan Community School District's Responses to Findings

Harlan Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Harlan Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Harlan Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schauer & Associates, PC

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2016**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

No significant deficiencies or material weaknesses were noted.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2016**

Part II: Other Findings Related to Statutory Reporting:

II-A-16 Certified Budget

Expenditures for the year ended June 30, 2016 did not exceed the certified budget amounts.

II-B-16 Questionable Expenditures

No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-C-16 Travel Expense

No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-16 Business Transactions

Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mike Bierl, employee, owner of Same Printing	T-shirts	\$ 3,728
Jim Bruck and Bill Hosack, employees, co-owners of of Drivers Safety, LLC	Purchased services	\$ 55,250
Randy Kroger, employee, owner of Kroger & Sons, LLC	Hauling	\$ 20,190

In accordance with Iowa State Code 279.7A, the above transactions are not with board members and do not appear to represent a conflict of interest.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2016**

Part II: Other Findings Related to Statutory Reporting (continued):

II-E-16 Bond Coverage

Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-16 Board Minutes

No transactions were found that we believe should have been approved by the Board minutes, but were not.

II-G-16 Certified Enrollment

No variances in the basic enrollment data certified to the Department of Education were noted.

II-H-16 Supplemental Weighting

No variances regarding the supplemental weighting certified to the Department of Education were noted.

II-I-16 Deposits and Investments

No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the District's investment policy were noted.

II-J-16 Certified Annual Report

The Certified Annual Report was certified timely to the Iowa Department of Education.

II-K-16 Categorical Funding

No instances were noted of categorical funding used to supplant rather than supplement other funds.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2016**

Part II: Other Findings Related to Statutory Reporting (continued):

II-L-16 Statewide Sales and Services Tax

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2016, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance	\$	940,712
Revenues/transfers in:		
Sales tax revenues		1,331,529
Other local revenues		1,201
		<u>1,332,730</u>
Expenditures/transfers out:		
Equipment		47,459
Transfers to debt service fund		992,622
		<u>1,040,081</u>
Ending balance	\$	<u>1,233,361</u>

For the year ended June 30, 2016, the District reduced the following levy as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
Physical plant and equipment levy	\$ 0.09637	\$ 47,459

II-M-16 Revenue Bonds

The District is in compliance with the provisions of the revenue bond resolution.

II-N-16 Student Activity Fund

Comment - In accordance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Rule 281-12.6(1), moneys in the Student Activity Fund should be used to support only the extracurricular and co-curricular activities offered as part of the District's educational program. We noted one expenditure for new modules for Forensic Science and Food Science that appeared to be for instructional purposes.

Recommendation - The District should pay expenditures that are for instructional purposes out of the General Fund.

Response - The purpose of the expenditure was for the after school STEM program. We consider this to be co-curricular.

Conclusion - Response acknowledged.